

Avenues

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5-year periods

Fund Rating

Lonsec Rating: Recommended*

Fund Facts

Fund Manager India Avenue Investment Management

Portfolio Manager Mugunthan Siva

Structure Registered Managed Investment Trust

Inception Date 6th September 2016

Fund Size \$29.6 million

NAV Wholesale: 0.9328
Retail: 0.9310

Base Currency Australian Dollars

Responsible Entity Equity Trustees Limited

Custodian Mainstream / BNP Paribas

Auditor KPMG

Benchmark MSCI India in AU\$

Distribution Freq. Yearly at 30 June

Management Expense Ratio Wholesale: 1.10% p.a.
Retail: 1.50% p.a.

Buy-Sell Spread 0.35% / 0.35%

Performance Fee** 10% of the excess return above the benchmark

FY19 Dividend Wholesale: 2.653 cpu
Retail: 1.248 cpu

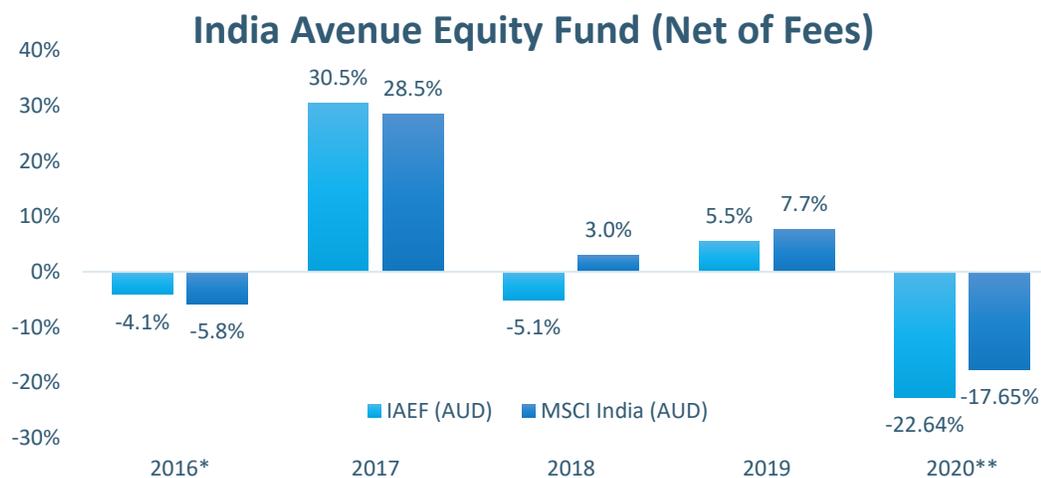
** Subject to a high watermark

Fund and Market Commentary: May 2020

The India Avenue Equity Fund (wholesale) fell 3.28% (net) for the month of May 2020, outperforming its benchmark by 0.84%. Markets around the world (including India) staged an impressive comeback in April after a calamitous March. However, in May India underperformed global markets on the back of uncertainty around the pandemic's effect on India, as well as the extended lockdown imposed by the Government. Other global markets continued their recovery with Brazil (+9%), Japan (+8%), Russia (+6%), the US (+5%), Korea (+4%), the UK (+3%), Indonesia (+1%) and the MSCI Emerging Market Index (+1%) - in local currency terms. The Indian market remains in a state of flux as the Government announced several fiscal measures and a total relief package of AU\$400bn. However, most of it pertains to liquidity injections, loans and credit guarantees, while direct fiscal stimulus is quite limited compared to other nations. In our discussions with contacts on the ground however, the Government does not want to expend all its ammunition in one go, giving them time to consider more targeted measures as they gain a deeper understanding of the economic impact. Despite the fall, and after two consecutive months of outflows, both Foreign and Domestic investor flows have turned positive with USD1.7bn and USD1.5b respectively.

Although the Fund has experienced weak relative performance over the last 2.5 years, we maintain our philosophy of building a portfolio from locally based advisers that leverages off India's growth story. We discuss some of the changes made to the portfolio (on page 3) that we feel will reward investors when India's economy resumes its course to a GDP of US\$5tn.

India Avenue Equity Fund Performance (in AUD and net of fees)



	Wholesale	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF		-3.28%	-23.47%	-24.86%	-25.41%	-9.14%	-5.25%	-0.81%
MSCI India		-4.11%	-17.89%	-19.55%	-19.14%	-2.71%	-0.22%	2.73%
Excess		0.84%	-5.57%	-5.31%	-5.00%	-6.43%	-5.03%	-3.54%
	Retail	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF		-3.31%	-23.55%	-25.03%	-25.77%	-9.59%	-5.67%	-4.14%
MSCI India		-4.11%	-17.89%	-19.55%	-19.14%	-2.71%	-0.22%	0.91%
Excess		0.80%	-5.66%	-5.48%	-6.62%	-6.88%	-5.45%	-5.05%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th April 2020 assuming the reinvestment of dividends

#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017

About India Avenue

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Fund Identifiers

Identifiers	Wholesale	Retail
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

Contact Details

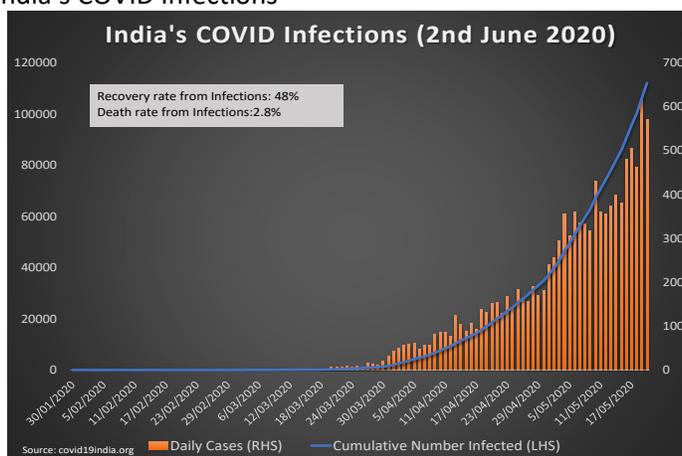
India Avenue Investment Management Australia Pty Ltd
AFSL 478233 | ABN: 38 604 095 954
Level 2, 33 York Street,
Sydney, NSW 2000, Australia
T: +612 8245 0507
E: info@indiaavenueinvest.com
W: www.indiaavenueinvest.com

COVID-19 Update

The Indian Government at the onset of the Covid-19 crisis implemented a barbell strategy where they hedged against the worst by imposing strict lockdown measures immediately, which gave them time to plan and formulate appropriate policy for protecting lives as well as stimulating growth.

The lockdowns commenced on the 24th of March and were extended several times. From April 20th the country gradually began emerging from lockdowns. By May 18th, ownership of the shift from "protecting lives" to "livelihoods" was placed in state control. The economy is now slowly moving back towards being operational.

India's COVID Infections



COVID-19 infection daily growth rate in India is hovering between 4-5%. Pleasingly 48% of COVID-19 infections are now fine. Whilst the argument on reported numbers being below actual is well known, it appears warm weather, young age of the population and natural immunities have played

some role alongside the lockdown imposed by the Government. 35% of cases lie in the state of Maharashtra (which has Mumbai as its capital). The top 4 states have 65% of the infections. The virus has particularly infected the major metros. In the initial phase of lockdown, the Government has utilised the support of the Central Bank and India's financial system to deliver support and stimulus. The RBI cut interest rates twice to 4% and continued open market operations to ensure the long end of the curve remained compressed. Additionally, loan moratoriums and interest payment deferrals through the financial system allowed for stimulus during difficult times.

These measures ensured the Government's fiscal deficit was not blown out at an early stage. In the meantime, the Government sought to lobby industry, business leaders and MSME's, generating feedback loops to gain greater insights into what was going on at ground level. The Government announcement a series of stimulus amounting to A\$400bn. Most of these measures were for the lower socio-economic groups, MSME's and rural sector. Refer to our note on the stimulus: bit.ly/IndiaStimulus

The fiscal deficit is already likely to see a large dent given tax collections will be much lower than expectations. We have recently seen Moody's downgrade India to Baa3 on the back of falling growth / rising deficit.

However, this places the Government in a position of strength should more stimulus be needed once the economy emerges from lockdown. Sanjeev reiterated that there was ammunition the Government had which could be directed more wisely with greater

India Macro & Micro News

- Government of India announced a special economic and comprehensive package of US\$284 billion, equivalent to 10% India's GDP to fight the pandemic. The funds will be used to provide relief for MSME businesses, inject liquidity into the financial system to allow credit to flow smoothly as well as tax relief by expediting tax refunds and deferring tax income return due dates.
- Reliance Industries, owner of Jio Platforms, the largest telco by customers in India, has been reducing debt, through strategic trade sales. US PE firm Silver Lake took a 1.15% stake in Jio platforms for US\$802 million, valuing the business at US\$69.5bn signifying a 12.5% premium to the equity valuation that Facebook made. Other notable investments made by the firm includes Airbnb, Alibaba, Ant Financial, Alphabet's Verily and Waymo units, Dell Technologies, Twitter and numerous other global technology leaders.
- Transport infrastructure sector in India holds an investment opportunity of US\$575 billion in the next five years. as per a report by management consulting firm Kearney. The report titled 'Harnessing the opportunities in India's transportation infrastructure' said, "Roads and Railways constitute 80 per cent of the total investment opportunity driven by investments in flagship projects such as Bharatmala Pariyojana, Dedicated Freight Corridor, High Speed Rail, etc".

Portfolio Changes

In late 2019, we decided to make some changes to the portfolio by introducing an adviser (Axis Asset Management) into the portfolio who focusses on the Quality style of investing. The companies that they typically like to be long-term shareholders in, are 1) companies who have a track record of generating long term sustainable growth, 2) are one of the dominant players in their market and 3) are run by top quality management who are consider the interest in minority shareholders. Given the attractive features of these companies, they typically trade at a higher P/E multiple compared to their weaker competition. As a result, many investors (typically foreign) either shy away from the particular company or the industry segment they belong in or settle for lower quality companies, purely for valuation purposes. This approach has a few drawbacks, namely.

- 1) P/E multiples are typically derived historically or 1-year forward and emphasise short-term earnings over long-term.
- 2) Many investors underestimate the power of compounding earnings, which means the denominator in P/E ratios (earnings) can grow very quickly. For example, it is unlikely that a P/E multiple can keep expanding to say 1000x, but EPS can easily and quickly grow from a small number to a high number
- 3) Low quality companies might have valuations on their side, but can remain low quality and may remain what we call "value traps"
- 4) Many critics of quality style investing suggest that valuations are ignored, but the truth is that the emphasis on decision making based on P/E and anchoring to an arbitrary historical number is significantly less. Quality style investors also utilise other measures of valuation that are less likely to be gamed, such as free cash flow (FCF) metrics e.g. P/FCF. A company's FCF eliminates a lot of the accounting trickery used to inflate earnings.

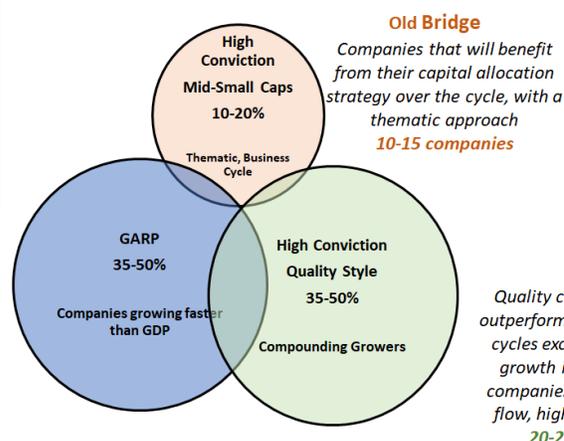
During the height of the market fall in March due to the pandemic, we started implementing this change by reducing the value bias in our portfolio and establishing positions in high quality names at much cheaper prices. In our view, the pandemic has also expediated the current ongoing transition from unorganised to organised and is likely to continue to increase the market share gains of the dominant players. The India Avenue portfolio is now currently positioned as illustrated below.

Impact of Change:

- Higher conviction weights in the large caps
- A portfolio of 50-55 stocks
- More balanced approach irrespective of where we are in the cycle

Aditya Birla

India is a growth market and if you are cognizant of valuation in selection then these growth companies will deliver market outperformance over the cycle
30-40 companies



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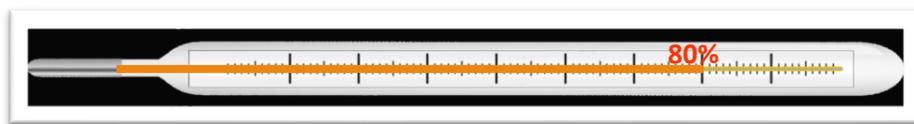
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Contact Details

India Avenue Investment Management Australia Pty Ltd
AFSL 478233 | ABN: 38 604 095 954
Level 2, 33 York Street,
Sydney, NSW 2000, Australia
T: +612 8245 0507
E: info@indiaavenueinvest.com
W: www.indiaavenueinvest.com

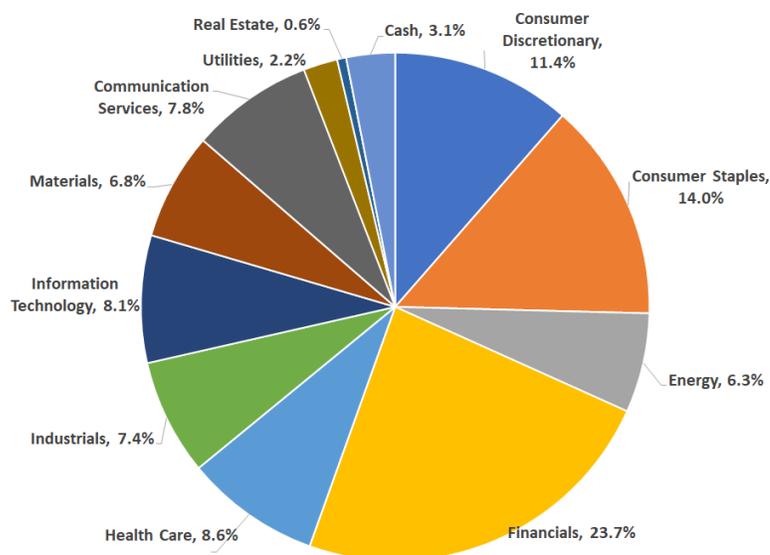
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
Bharti Airtel	Communication Services	5.1%
Reliance Industries	Oil & Gas, Retail & Telco	5.1%
HDFC Bank	Banks	4.2%
Kotak Mahindra Bank	Banks	3.9%
HDFC	Housing Finance	3.8%
Tata Consultancy Services	IT Services	3.6%
Infosys	IT Services	3.6%
Maruti Suzuki	Automobiles	3.5%
Avenue Supermarts	Hyper/Super Markets	3.4%
ICICI Bank	Banks	2.7%
Hindustan Unilever	Consumer Staples	2.7%
Info Edge	Interactive Media and Services	2.5%
Bajaj Finance	Non-Bank Finance	2.3%
Symphony	Coolers & Air Conditioners	2.3%
Divi's Laboratories	Pharmaceuticals	2.2%
Nestle India	Consumer Staples	2.2%
Torrent Power	Electric Utilities	2.1%
Escorts	Tractors and Moving Equipment	1.9%
Motherson Sumi Systems	Auto Components	1.8%
Indian Energy Exchange	Power Trading	1.8%

Sector Allocation as at 31st May 2020



Source: India Avenue, Thomson Reuters

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Sydney, NSW 2000, Australia
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W: www.indiaavenueinvest.com

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